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NOTES

WASHINGTON NOTES

A REPORT ON U.S. STEEL
THE AMERICAN TOBACCO COMPANY
PRESIDENT TAFT'S TRUST POLICY
"COMPETITION BETWEEN PLACES"
STATISTICS OF IMPORTS AND EXPORTS

The Bureau of Corporations has completed the first instalment of an important report on the United States Steel Corporation. This bids fair to be the most elaborate industrial study the Bureau of Corporations or perhaps any other government organization has ever issued. (*Report of the Commissioner of Corporations on the Steel Industry: Part I, Organization, Investment, Profits, and Position of United States Steel Corporation*, October, 1911.) The report first discusses the history of the Steel Corporation and describes the circumstances under which the different participating concerns were drawn into it. All this is comparatively familiar, the ground having been frequently traversed by reliable authorities. Then the report of the bureau turns to an analysis of the capitalization of the concern and shows that the original securities issued amounted to \$1,402,846,817, and that this capitalization was probably about half water. A valuation of \$682,000,000 is all that the bureau is willing to allow as the actual worth of the assets in 1902, omitting from consideration any additional elements which may have been imparted to the properties by the mere act of consolidation. The overcapitalization which is thus indicated is demonstrated in various ways, and as additional collateral evidence the bureau cites the enormous commission allowed to the underwriting syndicate in return for its work. The bureau's most important analysis—that of the earnings of old additions made to property of the concern since 1901, is then taken up and the conclusion stated in Table I is arrived at.

After allowing for the additional elements of value returned to the property out of profits during the past decade, the report turns to one of the most difficult phases of this corporation's organization and methods—its control over ore lands and the proportion which must be assigned to them in estimating the true worth of the concern. In speaking of that subject, the bureau reduces the corporation's own estimate

TABLE I

COMPARISON OF INVESTMENT OF STEEL CORPORATION, WITH TOTAL EARNINGS THEREON, AS ADJUSTED BY BUREAU, YEARLY, 1901-1910

YEAR ENDED DECEMBER 31	TOTAL INVESTMENT IN TANGIBLE PROPERTY	EARNINGS AS ADJUSTED BY BUREAU	
		Amount	Percentage
1901*	\$ 698,869,756	\$ 77,741,231*	14.8†
1902.....	763,574,919	121,502,344	15.9
1903.....	806,615,979	94,156,958	11.7
1904.....	818,238,143	62,491,950	7.6
1905.....	874,840,920	112,830,835	12.9
1906.....	947,397,884	143,393,707	15.1
1907.....	1,078,763,602	155,416,873	14.4
1908.....	1,090,425,487	84,793,206	7.8
1909.....	1,146,875,993	120,807,579	10.5
1910.....	1,186,982,038	127,216,084	10.7
Total.....	\$1,100,350,857
Average.....	\$941,258,472	\$112,856,498‡	12.0

* Nine months, April to December; investment includes additions during this period.

† Indicated rate per annum based on actual earnings for nine months.

‡ Average yearly profits for nine and three-fourths years.

TABLE II

PROPORTIONS OF OUTPUT OF PRINCIPAL IRON AND STEEL PRODUCTS PRODUCED BY UNITED STATES STEEL CORPORATION AND BY INDEPENDENT COMPANIES, RESPECTIVELY, IN 1901 AND 1910

PRODUCTS	Steel Corporation's Percentages		Independent Companies' Percentages	
	1901	1910	1901	1910
Pig iron, spiegel, and ferro.....	43.2	43.4	56.8	56.6
Steel ingots and castings.....	65.7	54.3	34.3	45.7
Rails.....	59.8	58.9	40.2	41.1
Structural shapes.....	62.2	47.0†	37.8	53.0‡
Plates and sheets of all kinds*.....	64.6	49.7‡	35.4	50.3‡
Black plate produced in tin mills.....	79.8	52.9	20.2	47.1
Coated tin-mill products.....	73.1	61.1	26.9	38.9
Black and coated sheets produced in sheet mills.....	67.3	38.9	32.7	61.1
Wire rods.....	77.7	67.3	22.3	32.7
Wire nails.....	68.1	55.5	31.9	44.5
Wrought pipe and tubes†.....	57.2	38.2	42.8	61.8
Seamless tubes‡.....	82.8	55.3	17.2	44.7

* Includes sheets for tinning, galvanizing, and other coatings.

† These percentages are based on capacity and not production. The capacity of independent companies is, moreover, partly estimated.

‡ For 1909; figures for 1910 not available.

of \$641,000,000 as the value of the ore lands to \$120,000,000 in 1902. As for the value at the present time, the bureau says that—

Unquestionably concentration of ownership and control had much to do with whatever appreciation in ore values may have taken place since 1901. The value of \$641,000,000 claimed by the Steel Corporation is greatly excessive. The average cost per ton of the ore acquired since 1901 taking fee and lease-holds collectively, was only a few cents, whereas, the total value claimed by the Steel Corporation indicated an average of over fifty cents a ton. While the original cost of a mining property is not a reliable indication of its value subsequently, it is impossible to accept an average valuation of as much as fifty cents per ton for the ore of the steel corporation.

A significant phase of the report is seen, however, in the recognition of the bureau that the supposed monopoly of the Steel Corporation is very greatly dependent upon the control of ore. In fact, the showing made in the report does not indicate a belief that the trust is really a monopoly in the proper sense of the word. The statement compiled in Table II indicates the proportions of different products controlled by the concern since its organization.

In another investigation, of the results of which a new instalment has just been issued, the Bureau of Corporations has given a very clear analysis of the financial side of a great industrial trust. This is the report on the profits of the American Tobacco Company (*Report of the Commissioner of Corporations on the Tobacco Industry: Part II, Capitalization, Investment, and Earnings*, September 25, 1911). The bureau had already, in Part I of this report, issued some time ago, considered the history of the Tobacco Company. It now devotes itself exclusively to the financial side and finds that the earnings of the combination which were in 1890-91 from 18 to 21 per cent, are now running at about 19 per cent, or \$31,200,000 yearly. These earnings were far greater than those of the independent companies which fairly represent the average rate in the tobacco business before the formation of the trust, amounting to about two and one-half times the average rate earned by forty-eight of the most important independent manufacturers of smoking and chewing tobacco and of snuff. Part of this great increase in earnings is attributed by the bureau to the fact that the combination was able, after the removal of the Spanish-War tax on tobacco, to keep prices at the higher level to which they had been raised subsequently to the original imposition of the tax, thereby adding millions of dollars annually

to its earnings. These earnings, owing to the various factors which have combined to keep them up, are, when compared with the very small original investment in the concern, an enormous return upon the real capitalization. Perhaps the most sensational part of the showing, however, does not deal with the enormous earnings which were extorted by the combination from the public, but with the profits which were made by "insiders" who "through adroit and frequent adjustment of securities" have managed to take to themselves the great bulk of the proceeds of operation. "The most striking feature," says the report, "is the almost invariable association of high rates of profit with a high degree of control, or with monopolistic conditions and of lower rates of profit with a lesser degree of control, or active competitive conditions." Through the manipulation of the securities and the inflation of the capital, the insiders who made investments in the common stock of the company at its organization in 1890 would have received in dividends down to the end of 1908 (excluding a stock dividend of 100 per cent issued at par in 1899) more than 400 per cent on the original amount, while in addition to this the market value of the securities as they then stood (end of 1908) would have been 580 per cent in excess of the par value of the original securities. In all, therefore, the dividends received, the inflation of the securities, and the appreciation of their value in the market would have amounted to nearly 1,000 per cent on the original investment. In the case of the business of W. D. Duke Sons & Co., which was valued at \$250,000 in 1885, the par value of the securities and the cash dividends paid to the holders of Duke stock amounted to nearly \$39,000,000, to the end of 1908, or 156 times the capitalized value of the Duke business in 1885. The report of the Bureau of Corporations thus bears out the position sustained by the Supreme Court in the opinion rendered in the suit of the government against the American Tobacco Company. It is a noteworthy fact that in the proposals currently made by American Tobacco managers to the Department of Justice as a basis for reorganization, a further apparent effort on the part of insiders to gorge themselves with profits by manipulation of securities is to be observed.

What must be considered an important step in the development of government policy on the trust question has been taken by President Taft and Attorney-general Wickersham. The President, on his western speech-making tour, particularly in addresses delivered at Detroit, Mich., and Waterloo, Ia., has given a new interpretation of the Sherman anti-

Trust Law. Attorney-general Wickersham, in newspaper interviews and official statements during the last week in September, has confirmed the President's interpretation and added his own view of the conditions giving rise to it. Apparently there is entire harmony of opinion between the Executive and his legal adviser. Both take the view that, under the oil and tobacco decisions of the Supreme Court, it is now incumbent on all corporations which find themselves out of harmony with the Sherman anti-Trust Law of 1890 to reorganize. Apparently the opinion is entertained that they should follow the method indicated in the plan for the reorganization of the American Tobacco Company, which is now to break up into three concerns, bonds and stock of both classes being distributed to the original holders of securities of the original company. The President and Mr. Wickersham do not lay down any distinct rule determining the conditions under which this action must be taken. By inference, however, they seem to hold that the reorganization should be effected in every case where a concern has been created either with the primary or incidental motive of suppressing competition. Where such a motive has been entertained in forming a corporation, good ground exists for thinking it "unreasonable" in the eye of the law, and, therefore, for reorganizing it in the manner prescribed by the court. This point of view differs entirely from what had been expected at the time when the decisions of the Supreme Court were handed down last spring. Inasmuch as the Supreme Court distinctly held the corporations on trial unreasonable because of the oppressive methods they had employed, it was supposed that only those concerns would be attacked on the score of their unreasonableness which had followed similar methods. In the case of the United States Steel Corporation, for example, it was assumed that the fact that the Bureau of Corporations had found that it was not a monopoly, and the further fact that it had never been charged with the use of oppressive methods of competition, were sufficient to exempt it from immediate attack. Apparently the Attorney-general entertains a quite different view, and his statement that he has found one hundred concerns against which there can be made out a *prima facie* case on the score of their unreasonableness because they have checked competition, entirely contradicts the earlier interpretation of the Supreme Court decisions. Incidentally to this discussion, President Taft has also placed himself on record as opposed to the view that government regulation of prices may serve as an alternative to, and corrective of, the evils of monopoly. He takes the position that such a policy is the next thing to "state socialism," and that it would be out of the

question to contemplate the adoption of such a plan in the United States, unless we were prepared to make a complete change in the basis of existing economic institutions. This puts the President squarely in opposition to industrial leaders who have recently declared in favor of the price-regulation plan.

An important decision has been handed down by the United States Court of Commerce in the so-called "lemon-rate" case. This case has received an unusual amount of publicity, not because of its intrinsic significance, but because of certain broader questions which it has involved and which are partly dealt with in the decision now rendered. At the time of the Payne-Aldrich Tariff Law, lemon producers demanded and received an increase of $1\frac{1}{2}$ cents a pound in the duty on their product. The advance was granted to them on the ground that under the old rate of protection, the Sicilian exporter could ship lemons to New York, pay the duty there, and secure the admission of the fruit on a basis that enabled him to undersell the Californian grower. Hardly had the tariff been raised in the way indicated when the railroads advanced their rates from \$1.00 to \$1.15 per hundred pounds from California to eastern points. Growers protested that the advance unduly tended to deprive them of the increased protection accorded them, and appealed to the Interstate Commerce Commission. After lengthy hearings, the commission canceled the advanced rates imposed by the roads and ordered the restoration of the old rate of \$1.00 per hundred pounds. This was done on the ground that lower rate was necessary in order to permit the California growers to compete successfully in the eastern market with the Sicilian exporter. An appeal was taken to the Court of Commerce with the result that in the decision on October 5, the new court orders the restoration of the advanced rate of \$1.15. This is on the ground that the functions of the Interstate Commerce Commission do not extend to the regulation of competition between places, least of all in international trade. Inasmuch, therefore, as it had canceled the higher rates on the ground that they prevented successful competition in the lemon market, the court overrules the commission and permits the roads to continue their higher scale of charges. There has been sharp criticism of the commission for a long time past on the ground that in many of its rulings it was disposed to attempt the redistribution of business between localities. On the other hand, the commission has been asked in an increasingly large number of cases to decide issues that involved such redistribution of business, and has frequently done so. At present,

there are pending before it a very large number of cases involving precisely this issue. Among them is the long-standing controversy between the Pittsburgh soft-coal district and the West Virginia bituminous region regarding the making of competitive rates from these two districts to the Great Lakes, while a number of other contests of the same sort are open. It has been the view of conservative members of the commission, as well as of students of its work, that while that body could not avoid dealing with problems of this sort, its decisions should be rendered only in those cases in which the rate question was the important one and the distribution of business among competing sections was secondary. On the other hand, the action of the court takes a somewhat extreme position against the rendering of any decision with primary reference to the power of different producers to compete for business. There is a probability that the case will be carried to the Supreme Court. Study of the decisions of that body tends to strengthen the belief that it would limit the commission to cases in which the reasonableness of rates was the primary factor at issue.

What promises to be an important inquiry has been undertaken by a joint committee of government statistical officers representing the Department of Commerce and Labor and the Treasury Department, under the chairmanship of Dr. E. D. Durand, the chief of the Census Bureau. To this committee has been intrusted the work of ascertaining how far the present import and export statistics are accurate and complete, and how far improvement is practicable. The committee includes not only statistical officials at Washington, but also some experts from the New York Custom House who are familiar with the practical problems involved in the preparation of prompt and reliable trade returns. Several meetings have been held during the summer and the committee is now nearly ready to make a report. Instead of suggesting that the conditions can be improved by merely executive action, it is practically certain that legislation will have to be asked for. The committee has found that the present import schedule of the United States, including as it does between 2,700 and 2,800 items, is fairly satisfactory. Some enlargements may be needed, bringing the total number of items up to perhaps 3,000, and probably some readjustments will have to be introduced. The export schedule is far less adequate. It includes only a little more than 400 classifications, and the belief of Secretary MacVeagh, now reinforced by the investigations of the committee, is that the items should probably be trebled or at least doubled in number. Much

greater accuracy in reporting the returns is also needed. The invoice system applied under our customs tariff results in a moderately reliable return of the values of goods brought into the United States and entered for consumption, but in the past it has been the practice of manufacturers to use much less care in valuing the export items. This has led to serious discrepancies between our export statistics and the import figures of the countries to which the goods were sent. As the latter have usually been accurate for the same reasons that apply in the case of our own import returns, the result has been to discredit our own export figures to a very material extent. Another problem on which the committee will report relates to the compilation of the data. At present the work is in large measure performed at the ports of entry, in order that there may be no loss of time or inconvenience due to the sending of the original papers which relate to shipments to the Bureau of Statistics in Washington. This has necessitated delays in reporting upon the figures each month. Time could be saved from the statistical standpoint by having the whole task of compilation carried out in Washington by a complete and highly organized staff. On the other hand, the forwarding of the papers would be objectionable, and if transcripts of them were to be made for transmissions the loss of time might be even greater than at present. It is intended to devote further study to the question where these preliminary compilations should be prepared. They were formerly under the jurisdiction of the Treasury Department, and the mechanism for collecting the original data at the ports is still controlled by that department. When the Department of Commerce and Labor was organized, the Bureau of Statistics itself was transferred to it. Later it was proposed to amalgamate the Bureau with the Census, but an adverse decision was reached. More recently there has been a proposal to transfer it back to the Treasury Department. The present situation is not altogether satisfactory, since it fails to provide an effective control of the figures.